

Message Text

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ACTION EB-07

INFO OCT-01 EA-06 ISO-00 AGR-05 AID-05 CIAE-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 IO-10

FEA-01 /070 W

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R 250840Z JUL 75

FM AMEMBASSY JAKARTA

TO USDOC

SECSTATE WASHDC 9413

AMCONSUL HONG KONG

AMEMBASSY SINGAPORE

AMCONSUL MEDAN

AMCONSUL SURABAYA

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PASS AID AND AGRICULTURE

E.O. 11652: N/A

TAGS: ETRD EFIN EAID BDIS ID

SUBJECT: GOI FREEZES IMPORTATION OF FERTILIZER AND
OTHER COMMODITIES

REF: JAKARTA 8889

SUMMARY

IN MEASURE DESIGNED BOTH CONSERVE FOREIGN EXCHANGE AND
EASE SEVERE FERTILIZER STORAGE PROBLEM, GOI HAS DECIDED
TEMPORARILY REDUCE IMPORTS OF SEVERAL COMMODITIES.
L/CS FOR VALID FERTILIZER IMPORT CONTRACTS (SOME INVOLVING
US FIRMS) ARE BEING WITHHELD UNTIL OCTOBER 1975. ENDUSERS
MAY DRAW ON APPROPRIATE PORTIONS OF FOLLOWING DETAILS
FOR BRIEFING PURPOSES BUT SHOULD DO SO WITHOUT ATTRIBUTION
TO GOI SOURCES MENTIONED.

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END SUMMARY

1. DR. JULIANTO, DIRECTOR GENERAL OF MONETARY AFFAIRS, GOI MINISTRY OF FINANCE ON JULY 18 CONFIRMED LOCAL MARKET REPORTS THAT ON JULY 15 MINFIN WARDHANA ON INSTRUCTIONS GOI CABINET SUBCOMMITTEE ORDERED POSTPONEMENT ISSUANCE OF L/CS FOR IMPORTS OF CHEMICAL FERTILIZERS, SUGAR, WHEAT AND RICE, UNTIL OCTOBER 1975. JULIANTO SAID THAT ALTHOUGH SUCH POSTPONED CONTRACTS WILL BE GRANTED L/CS IN OCTOBER, PRICES MAY HAVE TO BE RENEGOTIATED IN LINE WITH WORLD MARKET PRICES AT THAT TIME. POSTPONEMENT POLICY WILL PERMIT ONLY THE OCTOBER IMPORTATION OF FERTILIZERS FOR WHICH CONTRACTS HAVE ALREADY BEEN SIGNED AND WILL NOT PERMIT SIGNING OF NEW CONTRACTS.

2. JULIANTO INDICATED PRIMARY REASON FOR POSTPONEMENT DECISION WAS INDONESIA'S WELL-KNOWN PORT CONGESTION AND LACK OF STORAGE. HE CONFIRMED THAT IMPORTS OF APPROXIMATELY 400,000 TONS OF CHEMICAL FERTILIZER OF ALL TYPES ARE COVERED BY VALID CONTRACTS BUT COULD NOT BE PROPERLY STORED IF DELIVERED IN NEXT FOUR MONTHS. HE SAID GOI IS BUILDING STORAGE FACILITIES FOR 300,000 TONS OF FERTILIZER IN RURAL AREAS WHICH WILL BE READY IN OCTOBER, AND SOME OF PRESENT SUPPLIES OF OVER TWO MILLION TONS WOULD BE MOVED TO THIS RURAL STORAGE. ADDITIONAL 200,000 TONS RURAL STORAGE EXPECTED TO BE AVAILABLE IN DECEMBER. THUS BY DECEMBER GOI PLANS TO HAVE STORAGE SPACE AVAILABLE TO RECEIVE COMMODITIES FOR WHICH IT HAS ALREADY CONTRACTED. JULIANTO ALSO SAID THAT PERTAINING FINANCIAL PROBLEM AND ITS SHORT-TERM IMPACT ON FOREIGN EXCHANGE RESERVES WAS A FACTOR IN POSTPONEMENT DECISION, BUT NOT PRIMARY REASON.

3. EMBOFF ASKED WHETHER AN OFFICIAL ANNOUNCEMENT OF POSTPONEMENT WOULD BE MADE. JULIANTO SAID THAT NONE WAS PLANNED AND THAT GOI WOULD PREFER TO MAKE ABOVE INFORMATION KNOWN THROUGH EMBASSY CHANNELS TO AMERICAN SUPPLIERS. EMBOFF OBSERVED THAT AMERICAN SUPPLIERS WITH VALID CONTRACTS WOULD PROBABLY REGARD POSTPONEMENT OF L/CS AS VIOLATION OF CONTRACT TERMS AND WOULD THEREFORE PREFER LIMITED OFFICIAL USE

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TO LEARN OF DELAY DIRECTLY FROM GOI SOURCES. EMBOFF SUGGESTED THAT GOI CONSIDER DESIGNATING SPECIFIC GOI OFFICIAL TO DISCUSS OR INFORM THE US SUPPLIERS OF THE FACTS CONCERNING POSTPONEMENT. JULIANTO THOUGHT THIS A REASONABLE SUGGESTION AND INDICATED, IF SUGGESTION PURSUED, THAT DEPARTMENT OF TRADE OFFICIAL WOULD BE LOGICAL PERSON.

4. SUBSEQUENT CONVERSATION WITH GENERAL ARIFIN, HEAD OF BULOG (GOI NATIONAL AGRICULTURAL LOGISTICS AGENCY) SUBSTANTIALLY CONFIRMED REPORT OF SUBCABINET MEETING INSTRUCTION TO RESTRAIN IMPORTS BUT ALTERED BOTH THE DESCRIPTION OF IMPORTS TO BE RESTRAINED AND RATIONALE. ARIFIN, WHO ATTENDED MEETING, SAID THE INSTRUCTIONS WERE TO REDUCE IMPORTS OF ALL COMMODITIES (BOTH AGRICULTURAL AND NON-AGRICULTURAL). EVEN ESSENTIAL COMMODITIES ARE TO BE DELAYED, UNLESS BADLY NEEDED, UNTIL AFTER OCTOBER; THUS ARIFIN IN HIS AREA OF RESPONSIBILITY WILL DELAY ARRIVAL OF FOLLOWING ESSENTIAL COMMODITIES UNTIL PERIOD SHOWN: SUGAR--LATE 1975; LAST QUARTER 1975; RICE--FIRST QUARTER 1976.

6. ARIFIN SAID REASON FOR THESE DELAYS IS GOI FX FINANCIAL DIFFICULTIES CREATED BY PERTAMINA DEBTS, ADDING THAT HE NEEDS WHEAT AND WILL BUY ADDITIONAL QUANTITIES FROM US IF PROVIDED UNDER PL-480 TITLE I. THIS WILL BE IN ADDITION TO CCC CREDIT PURCHASES ALREADY EXTENDED, DESPITE US HIGHER PRICES, BECAUSE IN PRESENT GOI SITUATION CREDIT IS PARAMOUNT CONSIDERATION.

7. COMMENT. DISCUSSIONS WITH IMF REPRESENTATIVES AND OTHER EXPATRIATES, LEAD US TO BELIEVE CURRENT SITUATION AND ITS CAUSES ARE A COMBINATION OF SEVERAL FACTORS. IT WAS CLEAR TO MANY EXPATRIATE OBSERVERS IN EARLY 1975 THAT FERTILIZER STOCKS PLUS ANTICIPATED IMPORTS AND DOMESTIC PRODUCTION WERE SIGNIFICANTLY EXCESS OF NOT ONLY DOMESTIC STORAGE CAPACITY BUT ALSO DOMESTIC REQUIREMENTS. A STRONG CASE EXISTED FOR CUTTING BACK IMPORTS EVEN BEFORE RECENT FINANCIAL CONCERNS DEVELOPED. SIMILARLY, EARLIER PLANNED RICE IMPORT LEVEL WAS ALSO EXCESSIVE GIVEN LIMITED AVAILABLE STORAGE FACILITIES AND ANTICIPATED GOOD HARVEST. HOWEVER, LIMITED OFFICIAL USE

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HEIGHTENED CONCERN BY GOI OVER FINANCIAL SITUATION WAS PROBABLY IMMEDIATE CAUSE OF CHANGED IMPORT POLICY. WITH REGARD FINANCIAL SITUATION, PROBLEM APPEARS TO BE BASICALLY ONE OF SHORT-TERM CASH FLOW. ALTHOUGH OVERT GOI CONCERN, AS MANIFESTED IN CUTBACK MAJOR COMMODITY IMPORTS, IS RECENT DEVELOPMENT, MOST SERIOUS PERIOD PROBABLY ALREADY PASSED NOW THAT EURODOLLAR AND JAPANESE LOANS CONCLUDED AND LARGE JULY CALTEX PAYMENT RECEIVED. CASH FLOW PROBLEM WILL PROBABLY BE OVER BY SEPTEMBER/OCTOBER.

8. EMBASSY UNCERTAIN WHETHER GOI WILL ACTUALLY DESIGNATE AN OFFICIAL CHANNEL FOR COMMUNICATION WITH SUPPLIERS PER OUR SUGGESTION. WE FULLY EXPECT THAT THESE

DIFFICULTIES WILL BE RELATIVELY SHORT-TERM AND THAT
SUPPLIERS WILL EVENTUALLY BE ABLE TO FULFILL THE
CONTRACTS PREVIOUSLY AWARDED. THEREFORE, EVEN IF GOI
CHOOSES TO BE LESS THAN TOTALLY FORTHCOMING WITH ITS
SUPPLIERS OFFICIALLY, EMBASSY RECOMMENDS THAT USDOC
AND STATE URGE PATIENCE UPON THOSE SUPPLIERS.
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*** Current Handling Restrictions *** n/a

*** Current Classification *** UNCLASSIFIED

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DEBT REPAYMENTS, LOANS, PETROLEUM INDUSTRY
Control Number: n/a
Copy: SINGLE
Draft Date: 25 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975JAKART09101
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: DECLASSIFIED PER 8/31/77 MEMO FROM EA/TIMBS - ROBERT E. FRITTS
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750798/aaaagqnt.tel
Line Count: 180
Locator: TEXT ON MICROFILM, TEXT ON-LINE
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 JAKARTA 9101
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 13 JAN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 JAN 2003 by ThomasVJ>; APPROVED <15 MAR 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> gwr 971009
Subject: PERTAMINA FINANCES: SOME OF THE MECHANICS
TAGS: EFIN, ENRG, ID, PERTAMINA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006